IN THE

Supreme Court of the United States

October Term, 1961.

No. 244.

DAIRY QUEEN, INC.,

Petitioner,

vs.

THE HON. HAROLD K. WOOD, Judge of the United States District Court of the Eastern District of Pennsylvania, H. A. McCULLOUGH and H. F. McCULLOUGH, a partnership, doing business as McCullough's Dairy Queen, and BURTON F. MYERS, ROBERT J. RYDEEN, M. E. MONTGOMERY and LORRAINE DALE, Executrix of the Estate of Howard S. Dale, Deceased, Individuals,

Respondents.

BRIEF FOR RESPONDENTS, H. A. McCULLOUGH AND H. F. McCULLOUGH, BURTON F. MYERS, ROBERT J. RYDEEN, M. E. MONTGOMERY AND LORRAINE DALE.

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QUESTION PRESENTED.

Where respondents' complaint sought equitable relief for trademark infringement in the form of an injunction coupled with a prayer for an accounting, did not the District Court properly deny petitioner's demand for jury trial?

STATEMENT.

In the main, petitioner's statements with respect to the complaint, though meager, are accurate. However, petitioner omits the following statements in the complaint which are pertinent to the present issue:

(1) Respondent McCullough's Dairy Queen has licensed persons to use its trademark "Dairy Queen" throughout the United States, including the Commonwealth of Pennsylvania, and the sale of the frozen milk product under the trademark "Dairy Queen" has been under the constant supervision and control of respondent McCullough's Dairy Queen (paragraphs 5, 6 and 7, R. 10-11).

(2) Petitioner has unjustly enriched itself in not remitting sums of money to respondents (paragraph 12, R. 13).

(3) Petitioner continued to operate under the "Dairy Queen" name, collecting moneys thereunder subsequent to the cancellation of its franchise agreement, and thereby infringed respondent McCullough's Dairy Queen's trademark "Dairy Queen" (paragraph 17, R. 14).

There were three separate prayers for relief (R. 15-16) which in substance were as follows:

(1) For an injunction to restrain petitioner from using or licensing others to use respondents' trademark "Dairy Queen" or conducting any business under the "Dairy Queen" name.

(2) For an accounting to determine the amount of money owing by petitioner to respondents.

(3) For an injunction pending an accounting, requiring that moneys being collected by petitioner be paid into the registry of the District Court.

On December 28, 1960, District Judge Wood, after a hearing on respondents' motion for a preliminary injunction, made the following pertinent Findings of Fact:*

* * *

"8. The contract of October 18, 1949 (which was assigned to the defendant as stated above), authorized the defendant to conduct the operations of the development of the Dairy Queen retail outlets in a described area of Pennsylvania. The defendant acquired under the contract the right to subfranchise others to use the trade-mark 'Dairy Queen' within the described area of Pennsylvania. In return, the defendant promised to pay McCullough's Dairy Queen the minimum sum of $18,625.00 a year until the amount of $149,000.00 was fully paid as consideration for the use of the trade name.

"9. Since 1954, the defendant has not met the minimum payment required by the contract. At present, a balance in excess of $60,000 is past due and owing by the defendant to McCullough's Dairy Queen.

"10. The contract of October 18, 1949, provided that failure of the defendant to make payments promptly as required therein would cause any rights of the defendant acquired under the contract to cease and become null and void, unless the default were corrected."

* * *

"14. Subsequent to the letter cancelling the contract (see Finding Number 11), the defendant nevertheless continued to negotiate subfranchise agreements as aforesaid. Approximately five new subfranchise agreements were negotiated by the defendant in 1960.

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* Not officially reported; printed in Appendix to Respondents' Brief in Opposition to Petition for a Writ of Certiorari herein, at pp. 33-34.

"15. At present, the defendant has a list of prospective buyers for these subfranchise agreements and intends to pursue these business opportunities unless prevented from doing so by this Court.

"16. Because of the defendant's continued use of the plaintiff's trade-mark 'Dairy Queen' and the defendant's present intention to collect the profits from execution of new subfranchise agreements purporting to license others to use the name 'Dairy Queen', McCullough's Dairy Queen is suffering and will continue to suffer irreparable injury and loss."

Judge Wood at the same time made the following pertinent Conclusions of Law: *

• • •

"2. The defendant breached the contract of October 18, 1949, in failing to meet the minimum yearly payments required thereunder."

• • •

"4. McCullough's Dairy Queen had the right to and did effectively cancel the contract of October 18, 1949, by the letter of August 26, 1960.

"5. Upon cancellation of the contract of October 18, 1949, defendant's right to the use of the trademark 'Dairy Queen' ceased. All subfranchise agreements and other uses of that trademark by defendant subsequent to the cancellation of the contract constituted infringements of plaintiff McCullough's Dairy Queen's trademark.

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* Not officially reported; printed in Appendix to Respondents' Brief in Opposition to Petition for a Writ of Certiorari herein, at pp. 34-35.

"6. Defendant will continue to infringe plaintiff's trademark unless restrained by this Court. Continued use by defendant of the name 'Dairy Queen' will result in irreparable injury and loss to plaintiff McCullough's Dairy Queen, for which there is no adequate remedy at law."

* * * *

Judge Wood simultaneously entered a preliminary injunctive Order against petitioner, which was affirmed by the Court of Appeals for the Third Circuit, 290 F. 2d 871.

ARGUMENT.

At the outset, the Court's attention is invited to petitioner's statement, which infers that respondents' complaint asserts a claim for $60,000 due under a contract (brief, p. 4). Petitioner also quotes from the Opinion of District Judge Wood as follows (brief, p. 7):

> "Incidental to this relief, the complaint also demands the $60,000 now allegedly due and owing plaintiffs under the aforesaid contract."

Further, in its argument (brief, pp. 7-8) petitioner states "McCullough, in a single action, asserts a claim for $60,000 allegedly due under a written contract and, at the same time, seeks equitable relief because of the non-payment thereof . . .".

The fact is that nowhere does the complaint "demand" or "assert a claim" for $60,000 or any other specific sum. In material part, the complaint prays only for an accounting. The accounting sought by respondents cannot be said to relate to $60,000 or any other specific sum due and owing under the contract. For instance, it will be noted that elsewhere in the complaint it is alleged that petitioner has been unjustly enriched by the collection of certain moneys (paragraph 12; R. 13) and that petitioner has continued to infringe respondents' trademark (paragraph 17; R. 14), which themselves create accountable liabilities.

The allegation of petitioner's $60,000 default under the contract was simply to provide the necessary factual background for the allegation that petitioner had breached its agreement with respondents. It distorts and misconstrues the plain language of the complaint to say that it incorporates, inter alia, an action for debt or any other action *on the contract*. The converse is true. Respondents' right to relief arises from the fact that there is *no contract* between the parties, and has been none since its cancellation.

In petitioner's own view, its entitlement to a jury trial depends entirely upon the nature and scope of the relief demanded in the complaint. Therefore this case it not complicated by the more vexing question of injection of legal issues in the answer, by way of counterclaim or otherwise. Indeed, petitioner's answer contains no counterclaim or prayer for affirmative relief. Compare *Upjohn Co. v. Schwartz,* (S. D. N. Y., 1953) 117 F. Supp. 292.

In view of the foregoing, petitioner's reliance on *Beacon Theatres, Inc., v. Westover,* (1959) 359 U. S. 500, is misplaced. Petitioner states that this Court there held that the right to a trial by jury cannot be impaired by joining a demand for equitable relief with a claim properly cognizable at law (brief, p. 9). If this be the principle relied on, the vital flaw in petitioner's reasoning is apparent; it has assumed the conclusion. There is in the present complaint no claim "properly cognizable at law" which would support a right to jury trial.

Certainly *Beacon Theatres* did not purport to create any new rights to trial by jury; it simply preserved preexisting rights within the framework of a particular set of pleadings. This Court stated (at 359 U. S. 504):

> ". . . It follows that if Beacon would have been entitled to a jury trial in a treble damage suit against Fox it cannot be deprived of that right merely because Fox took advantage of the availability of declaratory relief to sue Beacon first. Since the right to trial by jury applies to treble damage suits under the antitrust laws and is, in fact, an essential part of the congressional plan for making competition rather than monopoly the rule of trade . . . the Sherman and Clayton Act issues on which Fox sought a declaration were essentially jury questions."

Clearly legal issues were raised by the counterclaim in *Beacon Theatres.* Insofar as the present controversy is

concerned, all that *Beacon Theatres* decided was that a defendant could not be deprived of the right to jury trial on the legal issues involved in its counterclaim merely because the plaintiff had anticipatorily sued first for equitable relief under the Declaratory Judgment Act. There is no counterclaim here, nor is any legal issue presented by the complaint. Thus *Beacon Theatres* is plainly inapplicable.

The additional authorities relied on by petitioner are equally inapposite. *Thermo-Stitch, Inc. v. Chemi-Cord Processing Corp.*, (C. A. 5, 1961) 294 F. 2d 486, involved a complaint for an injunction and for a declaratory judgment that the patents held by defendant were invalid and not infringed. Defendant counterclaimed for damages for patent infringement, fraud and antitrust violations and demanded jury trial on the issues of fact raised in the counterclaims. Defendant was held entitled to jury trial on the ground that the legal causes involved were controlling (at 294 F. 2d 491). The present case is clearly distinguishable.

Nor is there any conflict between the decision below and the decision of the Eighth Circuit in *Leimer v. Woods*, (1952) 196 F. 2d 828; the Ninth Circuit in *Bruckman v. Hollzer*, (1946) 152 F. 2d 730, or the Second Circuit in *Ring v. Spina*, (1948) 166 F. 2d 546.

In *Leimer v. Woods*, a right to jury trial was held to exist under the Emergency Price Control and the Housing and Rent statutes. In *Bruckman v. Hollzer*, it was held that the right to jury trial existed in a cause of action for damages for copyright infringement, where the complaint incidentally contained a cause of action for equitable relief by way of accounting and injunction. In *Ring v. Spina*, a claim for damages for violation of the antitrust laws was held triable by jury on timely demand.

The common denominator which distinguishes the foregoing cases relied on by petitioner from the present case is that in the former, a purely legal issue was framed by the pleadings in each instance. No legal issue is presented in the present complaint.

Even if anything resembling a "legal" issue were perceived to arise during the adjudication of the present suit, that would not automatically create entitlement to a jury trial. Certainly *Beacon Theatres* has not completely swept into discard the "incidental relief" or "cleanup" doctrine which has always permitted the Chancellor to resolve legal issues which are purely incidental to the main equitable relief sought. It does not appear that *Beacon Theatres* has overruled the many decisions expounding this principle, such as *Camp v. Boyd*, 229 U. S. 530, 552; *McGowan v. Parish*, 237 U. S. 285, 296 and *Greene v. Louisville & I. R. Co.*, 244 U. S. 499, 520. Recently this principle was invoked by the Court of Appeals for the First Circuit in sustaining trial to the Court of an equitable cause of action, even though such trial might preclude jury determination of an overlapping issue in a pending legal cause of action: *Chappell & Co. v. Palermo Cafe Co.*, (C. A. 1, 1957) 249 F. 2d 77. To the same effect is *Crane Company v. Crane*, (N. D. Georgia, 1957) 157 F. Supp. 293.

In the last analysis, it appears that the issue which petitioner wants tried to a jury is whether there was a breach of the contract here involved. In petitioner's view, this issue underlies the entire case (brief, p. 11).

We may concede that there exists, under the pleadings, a question of fact as to whether petitioner breached its contract with respondents, but this does not of itself create a "legal issue", triable of right by a jury. Moreover, by reference to petitioner's statement (brief, p. 5) it is clear that petitioner's denial of breach of the contract rests upon an alleged reformation of the contract; petitioner alleges that it has complied with the contract as reformed. Thus the fact question which petitioner regards as "vital" is essentially the issue of reformation.

An action to reform a written instrument is exclusively equitable, hence a claim for reformation under the Federal Rules is triable to the Court. No distinction exists between reforming an instrument as a basis of suit, and reforming

it for the assertion of a defense. All of the issues stemming from alleged reformation of a contract, including damages, are for the Court. 5 *Moore's Federal Practice* (2nd Edition), paragraph 38.22, pp. 182-183; see also *City of Morgantown, W. Va. v. Royal Ins. Co.*, (C. A. 4, 1948) 169 F. 2d 713, 714, aff'd on other grounds 337 U. S. 254; and *Maryland Casualty Co. v. United States*, (C. A. 8, 1948) 169 F. 2d 102, 113.

Finally, it must be noted that even if petitioner were correct in its assertion that the complaint incorporates a claim for damages for breach of contract, petitioner has not been harmed by the decision below. The District Court expressly stated in its Opinion (R. 37):

> ". . . However, we reserve judgment on the advisability of the submission to a jury of the question of the amount of damages, if any, due plaintiffs. At the final hearing on the merits, according to the development of the evidence, we may submit that question to a jury."

Thus the District Court has reserved for itself the exercise of its discretionary powers as provided in Rule 42(b) of the Federal Rules of Civil Procedure. No attempt has been made to demonstrate in what respect petitioner will be or may be harmed by the procedure contemplated in the decision below.

CONCLUSION.

For all of the foregoing reasons, respondents urge that the Order of the Court of Appeals for the Third Circuit denying the petition for a writ of mandamus be affirmed.

Respectfully submitted,

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